EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2015
with
INDEPENDENT AUDITOR'S REPORT

KPMG Al Fozan & Partners
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License No. 46/11/323 issued 11/3/1992

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Emaar The Economic City
Jeddah, Kingdom of Saudi Arabia.

We have audited the accompanying consolidated financial statements of Emaar The Economic City ("the Company") and its subsidiaries (collectively referred as "the Group") which comprise the consolidated balance sheet as at December 31, 2015 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 32 which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Article 123 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

KPMG

Opinion

In our opinion, the consolidated financial statements taken as a whole:

1) present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2015 and the consolidated results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
License No.382

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KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Jeddah, Jumada Al Awal 11, 1437H
Corresponding to February 20, 2016

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED BALANCE SHEET
As at December 31, 2015

	Notes	2015 (SR'000)	2014 (SR'000)
ASSETS			
Current assets:			
Cash and cash equivalents	4	**1,898,851**	2,012,944
Murabaha term deposits with banks	5	**1,012,979**	872,685
Accounts receivable and other current assets	6	**358,322**	225,487
Development properties	7	**1,575,841**	1,271,562
Current portion of employees' receivable - Home Ownership Scheme	11	**2,126**	--
Total current assets		**4,848,119**	4,382,678
Non-current assets:			
Investment properties	8	**5,217,389**	4,364,638
Property and equipment	9	**5,495,223**	5,012,368
Investment in an equity accounted investee	10	**2,345,651**	2,338,085
Employees' receivable – Home Ownership Scheme	11	**34,530**	--
Deferred costs	12	**5,857**	7,113
		13,098,650	11,722,204
Assets classified as held for disposal	13	**90,891**	101,250
Total non-current assets		**13,189,541**	11,823,454
Total assets		**18,037,660**	16,206,132
LIABILITIES AND EQUITY			
Current liabilities:			
Accounts payable and accruals	14	**889,962**	883,588
Current portion of long-term loans	16	--	753,365
Total current liabilities		**889,962**	1,636,953
Non-current liabilities:			
Long-term loans	16	**7,100,000**	5,377,815
Deferred contribution	17	**1,496,629**	953,882
Long-term provision	18	**5,099**	5,099
Unearned interest income - Home Ownership Scheme	11	**6,158**	--
Employees' end of service benefits	19	**23,117**	16,990
Total non-current liabilities		**8,631,003**	6,353,786
Total liabilities		**9,520,965**	7,990,739
Equity:			
Share capital	20	**8,500,000**	8,500,000
Statutory reserve	21	**1,869**	--
Retained earnings / (accumulated losses)		**16,820**	(284,028)
Effect of reducing the ownership percentage in a subsidiary	22	**(86)**	(86)
Total equity attributable to the Company's shareholders		**8,518,603**	8,215,886
Non-controlling interests		**(1,908)**	(493)
Total equity		**8,516,695**	8,215,393
Total liabilities and equity		**18,037,660**	16,206,132

The accompanying notes 1 to 32 form an integral part
of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2015

	Notes	2015 (SR'000)	2014 (SR'000)
Revenue	23	**1,022,957**	1,064,342
Costs of revenue		**(456,184)**	(336,626)
Gross profit		**566,773**	727,716
Expenses:			
Selling and marketing	24	**(89,746)**	(95,425)
General and administration	25	**(193,570)**	(176,488)
Land contribution	8.3 & 8.4	**84,237**	--
Depreciation, net	9.1	**(32,289)**	(28,073)
Amortisation	12	**(1,256)**	(1,674)
Impairment loss		**(15,803)**	--
Total expenses		**(248,427)**	(301,660)
Profit from operations		**318,346**	426,056
Financial charges, net		**(46,417)**	(54,951)
Murabaha deposit income		**21,868**	13,873
Share of profit from an equity accounted investee	10	**7,566**	19,039
Other income		**28,523**	1,405
Income before Zakat and non-controlling interests		**329,886**	405,422
Zakat	26	**(28,584)**	(26,600)
Income before non-controlling interests		**301,302**	378,822
Share of non-controlling interests in the net loss of consolidated subsidiaries		**1,415**	856
Net income attributable to Company's shareholders		**302,717**	379,678
Earnings per share on profit from operations – SR	27	**0.37**	0.50
Earnings per share on net income attributable to Company's shareholders – SR	27	**0.36**	0.45

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements

EMAAR THE ECONOMIC CITY
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2015

	Notes	2015 (SR'000)	2014 (SR'000)
Operating activities:			
Income before Zakat and non-controlling interests		**329,886**	405,422
Adjustments for:			
Depreciation	8 & 9.1	**88,738**	63,850
Charge for employees' end of service benefits	19	**6,851**	6,648
Share of profit from an equity accounted investee	10	**(7,566)**	(19,039)
Financial charges, net		**46,417**	54,951
Murabaha deposit income		**(21,868)**	(13,873)
Impairment loss		**15,803**	--
Provision for doubtful debts	6.1.1	**9,915**	327
Land contribution	8.3 & 8.4	**(84,237)**	--
Amortisation	12	**1,256**	1,674
Unwinding of unearned interest income - Home Ownership Scheme		**(984)**	--
Employee benefit expense - Home Ownership Scheme		**3,914**	--
Gain on disposal of property and equipment		**--**	(353)
		388,125	499,607
Changes in operating assets and liabilities:			
Accounts receivable and other current assets		**(137,297)**	335,791
Development properties		**(277,634)**	(17,466)
Accounts payable and accruals		**(41,439)**	206,806
Cash (used in) / generated from operations		**(68,245)**	1,024,738
Deferred contribution		**595,140**	470,486
Zakat paid	26	**(55,612)**	(6,268)
Finance charges paid		**(463,102)**	--
Employees' end of service benefits paid	19	**(724)**	(1,738)
Net cash generated from operating activities		**7,457**	1,487,218
Investing activities:			
Purchase of property and equipment	9	**(1,301,264)**	(902,771)
Proceeds from disposal of property and equipment		**--**	353
Deferred costs	12	**--**	(8,787)
Net movement in Murabaha term deposits with banks		**(140,294)**	(610,857)
Murabaha deposit income		**20,330**	13,873
Net movement in investment properties		**(50,322)**	(268,689)
Investment in an equity accounted investee	10	**--**	(1,185,720)
Net cash used in investing activities		**(1,471,550)**	(2,962,598)
Financing activities:			
Net movement in short-term loans		**--**	(33,721)
Long-term loans		**1,350,000**	750,000
Net movement in non-controlling interest		**--**	5
Net cash generated from financing activities		**1,350,000**	716,284
Net change in cash and cash equivalents		**(114,093)**	(759,096)
Cash and cash equivalents at the beginning of the year		**2,012,944**	2,772,040
Cash and cash equivalents at the end of the year	4	**1,898,851**	2,012,944

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

EMAAR THE ECONOMIC CITY
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2015

	Equity attributable to the Company's shareholders'						
2015	**Share capital** (SR'000)	**Statutory reserve** (SR'000)	**(Accumulated losses) / retained earnings** (SR'000)	**Effect of reducing the ownership percentage in a subsidiary** (SR'000)	**Total shareholders' equity** (SR'000)	**Non-controlling interests** (SR'000)	**Total** (SR'000)
Balance at January 1	8,500,000	--	(284,028)	(86)	8,215,886	(493)	8,215,393
Net income for the year	--	--	302,717	--	302,717	(1,415)	301,302
Transfer to statutory reserve	--	1,869	(1,869)	--	--	--	--
Balance at December 31	**8,500,000**	**1,869**	**16,820**	**(86)**	**8,518,603**	**(1,908)**	**8,516,695**
2014							
Balance at January 1	8,500,000	--	(663,706)	--	7,836,294	272	7,836,566
Net income for the year	--	--	379,678	--	379,678	(856)	378,822
Effect of reducing the ownership percentage in a subsidiary (note 22)	--	--	--	(86)	(86)	--	(86)
Net movement in non-controlling interest	--	--	--	--	--	91	91
Balance at December 31	8,500,000	--	(284,028)	(86)	8,215,886	(493)	8,215,393

The accompanying notes 1 to 32 form an integral part of these consolidated financial statements.

1. THE COMPANY AND ITS ACTIVITIES

Emaar The Economic City ("the Company") is a Saudi Joint Stock Company incorporated under Ministerial Resolution No. 2533 dated Ramadan 3, 1427H, corresponding to September 21, 2006 and registered in the Kingdom of Saudi Arabia under Commercial Registration number 4030164269 dated Ramadan 8, 1427H, corresponding to September 26, 2006. The Company is engaged in the development of real estate in the economic or other zones and other development activities including infrastructures, promotion, marketing and sale of land within development areas, transfer/lease of land, development of buildings/housing units, construction on behalf of other parties. The main activity of the Company is the development of the King Abdullah Economic City (KAEC). The registered office of the Company has been shifted to Rabigh. The Commercial Registration number of the registered office in Rabigh is 4602005884 dated Rabi Al Awwal 6, 1436H, corresponding to December 28, 2014.

The registered office is located at the following address:

P.O.Box No. 2338
Rabigh, King Abdullah Economic City, 23964
Kingdom of Saudi Arabia.

The Company has investments in the following subsidiaries which are primarily involved in development, investments, marketing, sale / lease, operations and maintenance of properties, providing higher education and establishment of companies. The Company and its subsidiaries constitute "the Group".

Name	Country of incorporation	Year of incorporation	Effective ownership interest 2015	2014
Economic Cities Investments Holding Company (ECIHC)	Kingdom of Saudi Arabia	2010	**99%**	99%
Industrial Zones Development Company Limited (IZDCL)	Kingdom of Saudi Arabia	2011	**98%**	98%
Economic Cities Real Estate Operation and Management Company Limited (REOM)	Kingdom of Saudi Arabia	2013	**98%**	98%
Economic Cities Pioneer Real Estate Management Company Limited (REM)	Kingdom of Saudi Arabia	2013	**98%**	98%
Economic Cities Real Estate Development Company Limited (RED)	Kingdom of Saudi Arabia	2013	**98%**	98%
Emaar Knowledge Company Limited (EKC)*	Kingdom of Saudi Arabia	2015	**100%**	--

*During the year ended December 31, 2015, the Company invested SR 9.6 million that represents 96% of the share capital of EKC. The balance 4% is owned by subsidiaries of the Company.

2. BASIS OF PRESENTATION

Statement of compliance
The accompanying consolidated financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by Saudi Organization for Certified Public Accountants (SOCPA).

Functional and presentation currency
These accompanying consolidated financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Group. All financial information presented in SR has been rounded to the nearest thousand, unless otherwise stated.

Accounting convention
The consolidated financial statements have been prepared under the historical cost convention, as modified by the adjustment for arriving at the net present value of the Employees' receivable – Home Ownership Scheme and to include the measurement at fair value of assets classified as held for disposal, using accrual basis of accounting and going concern assumption.

Use of estimates and judgements
The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in future years affected. The key areas requiring significant management judgments and estimates are as follows:

Classification of investment properties
The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group.

Impairment of accounts receivable
An estimate of the collectible amount of accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

Cost to complete the projects
As part of application of percentage of completion method on contract accounting, the cost to complete the project is estimated. These estimates include, amongst other items, the construction costs, variation orders and the cost of meeting other contractual obligations to the customers. Such estimates are reviewed at regular intervals. Any subsequent changes in the estimated cost to complete may affect the results of the subsequent periods.

Impairment on assets classified as held for disposal
Assets classified as held for disposal are assessed for impairment at regular intervals in order to reflect adequate recoverable amount in the consolidated financial statements, based on the prevailing market value obtained from professionals involved in the sale of these assets.

2. BASIS OF PRESENTATION (continued)

Use of estimates and judgments (continued)

Long-term provision
Long-term provision is assessed periodically based on excess costs to be incurred in providing property and city maintenance services to residential customers, to reflect the probable outflow of resources required to settle the obligation.

Useful lives of property and equipment
The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

Impairment of property and equipment and investment property
Property and equipment and investment property are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable in part or full. Whenever the carrying amount of these assets exceeds their recoverable amount, an impairment loss is recognized in the consolidated statement of income. The recoverable amount is the higher of an asset's net selling price and the value in use. The net selling price is the amount obtained from the sale of an asset in an arm's length transaction while value in use is present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of impairment losses recognised in the prior periods are recorded when there is an indication that the impairment losses recognised for the property and equipment and investment property no longer exist or have reduced.

Impairment of other non-financial assets
The Group assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount, which is higher of fair value less cost to sell and its value in use.

Going concern
The Group's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been consistently applied by the Group for the preparation of these consolidated financial statements:

Basis of consolidation
These consolidated financial statements include the financial statements of the Company and its subsidiaries as set out in note 1. Investment in an equity accounted investee is accounted for using the equity method.

Subsidiaries
Subsidiaries are entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

All intra-group balances and financial transactions resulting from transactions between the Company and the subsidiaries and those arising between the subsidiaries are eliminated in preparing these consolidated financial statements. Also, any unrealized gains and losses arising from intra-group transactions are eliminated on consolidation.

Non-controlling interests
Non-controlling interest ("NCI") represents the interest in subsidiary companies, not held by the Company which are measured at their proportionate share in the subsidiary's identifiable net assets. Transactions with NCI parties are treated as transactions with parties external to the Group.

Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, cash with banks and other short-term highly liquid investments, if any, with original maturities of three months or less.

Short term bank deposits
Short term bank deposits include placements with banks with original maturities of more than three months and less than one year from the placement date.

Accounts receivable
Accounts receivable are stated at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Development properties
Properties acquired, constructed or in the course of construction and development for sale are classified as development properties. Unsold properties are stated at the lower of cost and net realizable value. Sold properties in the course of development are stated at cost plus attributable profit less progress billings. The cost of development properties includes the cost of land and other related expenditure which is transferred to development properties as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less cost of completion and costs to be incurred in selling the property.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Development properties (continued)

The property is considered to be completed when all related activities, including the infrastructure and facilities for the entire project, have been completed and handed over and title is transferred. At that stage, cost, attributable profit / (loss) and progress billings are eliminated from development properties. Management reviews the carrying values of the development properties at each reporting date.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are carried at cost less accumulated depreciation and impairment losses, if applicable. Investment properties include buildings which are depreciated on a straight line basis over the estimated useful life of 30 years.

Properties are transferred from investment properties to development properties when and only when there is a change in use, evidenced by commencement of development with a view to sell. Such transfers are made at the carrying value of the properties at the date of transfer.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and any impairment in value. Freehold land is not depreciated. The cost less estimated residual value of property and equipment is depreciated on a straight line basis over the following estimated useful lives of the assets:

	Years
Buildings	20-30
Furniture and fixtures	4
Motor vehicles	4
Heavy equipment and machinery	5-10
Leasehold improvements	2
Office equipments	3
Infrastructure assets	10-30

Expenditure for repairs and maintenance are charged to the consolidated statement of income. Improvements that increase the value or materially extend the useful life of the related assets are capitalised. Interest on long term loan that is directly related to qualifying property and equipment is capitalised.

Investment in an equity accounted investee

The Group's investment in equity accounted investee represents investment in those entities over whose activities the Group has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. This also includes those entities in which the Group has significant influence, but not control, over the financial and operating policies, generally accompanying a shareholding between 20% and 50% of the voting rights.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in an equity accounted investee (continued)
Investment in equity accounted investee is accounted for using the equity method of accounting together with any long-term interests that, in substance, form part of the investor's net investment in the equity accounted investee. Under the equity method, the investment in the equity accounted investee is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the equity accounted investee less dividend and impairment loss, if any.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of Group's investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an equity accounted investee.

Employee Home Ownership Scheme:
In accordance with the Group's policy, the Group sells the built units to employees under interest free finance lease arrangement for a period of twenty years. The employee is entitled to continue in the scheme, even after retirement, resignation or termination from the Company. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income with a corresponding impact in the consolidated statement of income as employee benefit expense. Interest income is recognized in the consolidated statement of income over the term of the lease using the effective rate of interest. In case of cancellation of the employee home ownership contract by the employee, the amount paid by the employee under the scheme is forfeited and recognized in the consolidated statement of income.

Deferred costs
Deferred costs includes all costs and expenses incurred during the current period and have the future economic benefits. Such costs are amortized using the straight-line method over the related economic benefit periods not exceeding seven years.

Non-current assets held for disposal
Non-current assets that are classified as held for disposal are measured at the lower of their carrying amount and fair value less costs to sell. Assets are transferred to non-current assets held for disposal when it is expected that the carrying amount will be recovered principally through disposal rather than from continuing use. For this to be the case, the asset must be available for immediate disposal in its present condition subject only to terms that are usual and customary for disposals of such assets and its disposal must be highly probable.

Accounts payable and accruals
Liabilities are recognised for amounts to be paid in the future for services received or when risks and rewards associated with the goods are transferred to the Group, whether billed by the supplier or not.

Loans and borrowings
Loans are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, commission bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred contribution
Deferred contribution represents amounts received from customers in respect of infrastructure assets and land, which are recognised as an obligation to provide access to the properties sold. The obligation, which is measured with reference to the contributions received, is then amortised over the useful life of the infrastructure assets for the portion that relates to infrastructure assets and the contribution that relates to the land is recognised as revenue upon transfer of land title.

Employees' end of service benefits
Provision is made for amounts payable under the Saudi Arabian labour law applicable to employees' accumulated periods of service at the consolidated balance sheet date. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the consolidated balance sheet date.

Segment reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Currently, the Group is principally involved in sale of plots and apartments and villas in KAEC and in providing certain ancillary services such as hospitality, education and lease, which are not significant to the entire Group's business. Accordingly, the management believes that at this stage, the Group's business activity falls within a single business segment which is subject to same risks and returns and non-disclosure of segment information may not affect the decisions of the users of these consolidated financial statements.

Provisions
Provisions are recognised when the Group has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

Revenue recognition
Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Group,
- it can be reliably measured, regardless of when the payment is being made
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

Sale of property
Revenue on sale of plots of land is recognised on the basis of the full accrual method as and when all of the following conditions are met:

a) a sale is consummated and contracts are signed;

b) the buyer's investment, to the date of the consolidated financial statements, is adequate to demonstrate a commitment to pay for the property;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

c) the Group's receivable is not subject to future subordination;

d) the Group has transferred to the buyer the usual risks and rewards of ownership in a transaction that is in substance a sale and does not have a substantial continuing involvement with the property; and

e) work to be completed is both easily measurable and accrued or is not significant in relation to the overall value of the contract.

Revenue on sale of apartments and villas is recognized on the basis of percentage of completion as and when all of the following conditions are met:

a) the buyer's investment, to the date of the consolidated financial statements, is adequate (20% and above) to demonstrate a commitment to pay for the property;

b) construction is beyond a preliminary stage. The engineering, design work, construction contract execution, site clearance and building foundation are finished;

c) the buyer is committed: the buyer is unable to claim a refund except for non-delivery of the unit; and

d) the aggregate sales proceeds and costs can be reasonably estimated.

Rental income
Rental income from investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

Service revenue
Revenue from rendering of services is recognized when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the consolidated balance sheet date.

Hospitality revenue
Revenue from hotel accommodation, food and beverages and other related services are recognised, net of discount and municipality fees on accrual basis when the services are rendered.

School revenue
Tuition, registration and other fees are recognized as income on accrual basis.

Income on Murabaha term deposits with banks
Income on Murabaha term deposits with banks is recognised on effective yield basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Costs of revenue
Costs of revenue includes the cost of land, development and other service related costs. Development costs include the cost of construction.

The costs of revenues in respect of apartments and villas is based on the proportion of the development cost incurred to date related to sold units to the estimated total development costs for each project.

The costs of revenues in respect of land sales includes cost of land.

The costs of revenues in respect of hotel and school is based on actual cost of providing the services.

Expenses
Selling and marketing expenses are those that specifically relate to the selling and marketing activities of the Group. All other expenses are classified as general and administration expenses.

Borrowing costs
Borrowing costs that are directly attributable to the construction of an asset are capitalised using capitalisation rate up to the stage when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed and, thereafter, such costs are charged to the consolidated statement of income.

Operating leases
Operating lease payments are recognized as an expense in the consolidated statement of income on a straight line basis over the lease term.

Zakat
Zakat is provided for in accordance with Saudi Arabian Department of Zakat and Income Tax (DZIT) regulations. The provision is charged to the consolidated statement of income.

Foreign currencies
Transactions in foreign currencies are recorded in Saudi Arabian Riyals at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the consolidated balance sheet date. All differences are taken to the consolidated statement of income.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

Offsetting
Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by the generally accepted accounting principles in the Kingdom of Saudi Arabia.

4. CASH AND CASH EQUIVALENTS

	2015 (SR'000)	2014 (SR'000)
Cash and Bank balances	**804,951**	1,373,944
Short-term Murabaha deposits (note 4.1, 5)	**1,093,900**	639,000
	1,898,851	2,012,944

4.1 Short-term deposits are placed with commercial banks and yield commission at prevailing market rates.

5. MURABAHA TERM DEPOSITS WITH BANKS

Murabaha term deposits with banks represent funds placed with commercial banks at the prevailing market rates and comprised of the following:

	2015 (SR'000)	2014 (SR'000)
Murabaha deposits	**2,106,879**	1,511,685
Short-term Murabaha deposits (note 4)	**(1,093,900)**	(639,000)
	1,012,979	872,685

6. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

	2015 (SR'000)	2014 (SR'000)
Accounts receivable (note 6.1)	**296,732**	185,733
Advances to suppliers	**12,085**	18,730
Prepayments	**9,478**	6,172
Commission receivable on Murabaha term deposits	**4,726**	3,189
Margin on letter of credits	**--**	443
Other current assets	**35,301**	11,220
	358,322	225,487

6.1 Accounts receivable

	2015 (SR'000)	2014 (SR'000)
Gross accounts receivable	**309,666**	188,752
Provision for doubtful debts (note 6.1.1)	**(12,934)**	(3,019)
	296,732	185,733

6. ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)

6.1.1 The movement in provision for doubtful debts for the year ended December 31 is as follows:

	2015 (SR'000)	2014 (SR'000)
Balance at beginning of the year	**3,019**	2,692
Charge for the year (note 24)	**9,915**	327
Balance at end of the year	**12,934**	3,019

The ageing analysis of accounts receivable is as follows:

	Up to three months	*Above three and up to six months*	*Above six months*	Total
		SR'000		
December 31, 2015	**202,287**	**27,636**	**79,743**	**309,666**
December 31, 2014	98,131	13,106	77,515	188,752

Receivables are secured by promissory notes and bank guarantees wherever applicable.

7. DEVELOPMENT PROPERTIES

	2015 (SR'000)	2014 (SR'000)
Costs incurred to date	**3,038,386**	2,458,793
Properties under construction (note 8.1)	**(718,782)**	(679,335)
Properties completed (note 8.1)	**(563,085)**	(552,114)
Transfer to property and equipment (note 9)	**(179)**	--
Transfer from investment properties (note 8.5)	**60,178**	158,258
	1,816,518	1,385,602
Attributable profit	**2,955,884**	2,385,478
Progress billings	**(3,192,682)**	(2,492,373)
Provision for development properties	**(3,879)**	(7,145)
	1,575,841	1,271,562

Development properties represent costs incurred to-date on projects under progress at KAEC, intended to be sold, and costs incurred to-date plus attributable profit / (loss) on sold properties less progress billings made in respect of sold properties under development.

Development properties also include plots of land, amounting to SR 516 million (2014: SR 455 million) which have been identified by the management to be sold in their present condition. Accordingly, these have been reclassified from investment properties to development properties.

8. INVESTMENT PROPERTIES

8.1 The investment properties include the following:

	2015 (SR'000)	2014 (SR'000)
Greenfield land and associated cost (note 7,8.2,8.3,8.4 &8.5)	**3,035,931**	3,148,733
Properties under construction		
- Balance at January 1	**679,335**	746,836
- Costs incurred during the year	**39,447**	261,593
- Transfer to properties completed	**--**	(329,094)
Transfer from development properties (note 7)	**718,782**	679,335
Transfer from property and equipment (note 9)	**569,389**	--
Balance at December 31	**1,288,171**	679,335
Properties completed :		
- Transfer from development properties (note 7)	**563,085**	552,114
- Transfer from property and equipment (note 9)	**366,458**	--
- Accumulated depreciation	**(36,256)**	(15,544)
	893,287	536,570
	5,217,389	4,364,638

8.2 A Greenfield land measuring approximately 168 million square meters has been earmarked for the master development of the KAEC. This includes land measuring approximately 37 million square meters which was contributed by a shareholder as part of its capital contribution for an agreed sum of SR 1,700 million in lieu of shares of the same value in the Company (note 20). The specific allocation of the Greenfield land to be used by different projects, which could be for sale or rental, has not yet been completed. Therefore, the Greenfield land and associated costs amounting to SR 3,036 million (2014: SR 3,149 million) has been classified as investment property. No depreciation has been charged as these comprise only freehold land. Greenfield land includes 24.7 million square meters pledged in favour of Ministry of Finance against a long-term loan of SR 5,000 million (note 16.1). Loans obtained from commercial banks are also secured against KAEC Greenfield land. However legal formalities pertaining to security of such additional borrowings are in progress (note 16.2 and 16.3). Greenfield land measuring 14.1 million square meters has been earmarked for lease to industrial customers.

8.3 During the year ended December 31, 2015, the Board of Directors of the Company resolved, and thereafter approved by the General Assembly of the Company, to provide a free of cost land amounting to SAR 4.3 million measuring 0.3 million square meters to Technical and Vocational Training Centre.

8.4 During the year ended December 31, 2013, the Board of Directors of the Company had resolved to provide a land amounting to SAR 88.5 million to a Government body free of cost for the development of automotive cluster in KAEC. However, during the year ended December 31, 2015, the automotive cluster project was relocated and will no longer be hosted in KAEC. Consequently, the land provided during the year ended December 31, 2013, has been recorded and will be used by the Group in its future projects.

8. INVESTMENT PROPERTIES (continued)

8.5 The movement in the Greenfield Land and associated costs is as follows:

	2015 (SR'000)	2014 (SR'000)
Balance at January 1	**3,148,733**	3,328,472
- transfer to development properties upon change in use (note 7)	**(60,178)**	(158,258)
- transfer to property and equipment (note 9)	**(136,861)**	(22,549)
- land contribution (note 8.3 & 8.4)	**84,237**	--
- transfer from properties under construction	**--**	1,068
Balance at December 31	**3,035,931**	3,148,733

9. PROPERTY AND EQUIPMENT

	Freehold Land* (SR'000)	Buildings (SR'000)	Leasehold improvements (SR'000)	Heavy equipment & machinery (SR'000)	Furniture & fixtures (SR'000)	Office equipment (SR'000)	Motor vehicles (SR'000)	Infrastructure assets (SR'000)	Capital work in progress (Note 9.2) (SR'000)	Total (SR'000)
Cost:										
At the beginning of the year	73,120	796,573	27,870	19,759	46,018	79,925	4,343	1,564,303	2,798,604	5,410,515
Additions	--	4,785	1,574	836	2,405	16,231	150	--	1,275,283	1,301,264
Transfer from investment properties (note 8.5)	3,874	--	--	--	--	--	--	--	132,987	136,861
Transfer to investment properties (note 8.1)	--	--	--	--	--	--	--	--	(935,847)	(935,847)
Transfer from development properties (note 7)	179	--	--	--	--	--	--	--	--	179
Borrowing cost	--	--	--	--	--	--	--	--	109,658	109,658
Transfer in/(out)	--	133,029	2,705	7,638	29	--	--	465,595	(608,996)	--
Impairment (note 9.3)	--	(4,643)	--	--	--	--	--	--	(807)	(5,450)
Disposals	--	--	--	--	(133)	--	--	--	--	(133)
At the end of the year	**77,173**	**929,744**	**32,149**	**28,233**	**48,319**	**96,156**	**4,493**	**2,029,898**	**2,770,882**	**6,017,047**
Depreciation:										
At the beginning of the year	--	146,463	24,713	13,484	24,404	51,758	2,924	134,401	--	398,147
Charge for the year (note 9.1)	--	29,449	552	2,905	4,780	16,446	687	68,959	--	123,778
Disposals	--	--	--	--	(101)	--	--	--	--	(101)
At the end of the year	--	175,912	25,265	16,389	29,083	68,204	3,611	203,360	--	521,824
Net book values:										
At 31 December 2015	**77,173**	**753,832**	**6,884**	**11,844**	**19,236**	**27,952**	**882**	**1,826,538**	**2,770,882**	**5,495,223**
At 31 December 2014	73,120	650,110	3,157	6,275	21,614	28,167	1,419	1,429,902	2,798,604	5,012,368

* Freehold land includes land amounting to SR 74 million related to infrastructure assets.

9. PROPERTY AND EQUIPMENT (continued)

9.1 Depreciation

	2015 (SR'000)	2014 (SR'000)
Charged during the year	**123,778**	104,399
Amortisation of deferred contribution (note 17)	**(55,752)**	(48,856)
	68,026	55,543
Charged to cost of revenue	**(35,737)**	(27,470)
	32,289	28,073

9.2 Capital work in progress mainly represents construction costs in respect of the infrastructure and other projects at the King Abdullah Economic City.

9.3 During the year ended December 31, 2015, an impairment loss amounting to SR 5.4 million has been charged to the consolidated statement of income.

10. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

	2015 (SR '000)	2014 (SR '000)
Investment	**2,487,520**	2,487,520
Purchase of shares from other shareholder	**117,480**	117,480
	2,605,000	2,605,000
Share of profit from equity accounted investee		
Balance at January 1	**20,799**	1,760
Share of profit for the year	**7,566**	19,039
Balance at December 31	**28,365**	20,799
Elimination of share of profit on sale of land and commission income from equity accounted investee	**(287,714)**	(287,714)
	2,345,651	2,338,085

On Jumada Awal 14, 1431H (corresponding to April 29, 2010), the Port Development Company (PDC), a closed joint stock company was incorporated in the Kingdom of Saudi Arabia, which is engaged in development, operation and maintenance of the King Abdullah Port at KAEC (the Port).

During 2011, the shareholders of PDC entered into an agreement whereby, the shareholding structure and funding mechanism of PDC was agreed. As per the terms of agreement, the Company's shareholding in PDC was agreed to be 34%.

During the year ended December 31, 2012, to contribute a part of the equity funding under the agreement, the Company invested SR 145 million in the form of land, infrastructure and other development cost.

10. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE (continued)

On October 8, 2013 the shareholders of PDC had resolved to increase the shareholdings of the Company to 74% by converting additional capital contribution to equity in PDC. Consequently, the land of SR 200 million contributed as part of equity funding during the period ended September 30, 2013 had been reclassified as receivable from PDC.

On April 16, 2014, the shareholders of PDC amended the shareholders agreement of October 8, 2013. As per the revised terms, the Company purchased 11,748,000 registered shares at par in PDC from other shareholder for a cash consideration of SAR 118 million. Accordingly, the Company's shareholding in PDC had reached to 51%.

The Company also invested cash of SR 1,701 million in PDC. Additional capital contribution also includes SAR 640 million which had been reclassified from loan to an equity accounted investee under the agreement dated October 8, 2013. The legal formalities in respect of conversion of additional capital contribution of SR 2,252 million to equity had been completed on July 17, 2014 that consequently reduced the Company's shareholding in PDC to 50%.

Pursuant to the terms of the revised agreement, the shareholders of PDC have concluded that they have joint control over PDC and hence the management of the Company has reclassified the investment in an associate to "Investment in an equity accounted investee".

Furthermore, as per terms of the revised agreement, the Company had also provided a corporate guarantee to a commercial bank, amounting to SAR 269 million, limited to its revised shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility to partially finance the construction costs of the Port.

During the year ended December 31, 2015, the Company has provided an additional corporate guarantee to a commercial bank, amounting to SR 500 million, limited to its shareholding percentage in PDC, to allow PDC to secure Shariah compliant commodity Murabaha facility.

11. EMPLOYEES' RECEIVABLE – HOME OWNERSHIP SCHEME

The Company has provided built units to eligible employees under interest free finance lease arrangement for a period of twenty years. The gross value of the lease payments is recognized as a receivable under employee home ownership scheme. The difference between the gross receivable and the present value of the receivable is recognized as an unearned interest income.

	Gross receivable		Present value of gross receivable		Unearned interest income	
	2015 (SR'000)	2014 (SR'000)	**2015 (SR'000)**	2014 (SR'000)	**2015 (SR'000)**	2014 (SR'000)
Current portion	2,126	--	1,438	--	688	--
Non-current portion						
One to five years	8,502	--	6,094	--	2,408	--
Over five years	26,028	--	22,278	--	3,750	--
	34,530	--	28,372	--	6,158	--
	36,656	--	**29,810**	--	**6,846**	--

12. DEFERRED COSTS

	2015 (SR'000)	2014 (SR'000)
Deferred costs	8,787	8,787
Less: Amortisation		
Balance at January 1	1,674	--
Amortisation for the year	1,256	1,674
Balance at December 31	2,930	1,674
	5,857	7,113

13. ASSETS CLASSIFIED AS HELD FOR DISPOSAL

The Group has identified certain assets which are to be disposed off in line with the strategic business plans of the Group. Accordingly, these assets are classified as held for disposal. During the year ended December 31, 2015, these assets have been reviewed for impairment which indicated an impairment of SR 10.4 million (2014: SR Nil) and accordingly has been recognised in the consolidated statement of income. As at December 31, 2015, the assets held for disposal amount to SR 90.9 million (2014: SR 101.3 million).

14. ACCOUNTS PAYABLE AND ACCRUALS

	2015 (SR'000)	2014 (SR'000)
Advance from customers	207,053	186,786
Retentions payable	189,539	78,809
Accounts payable	104,668	186,091
Accrued expenses and other payables	122,353	139,865
Accrued financial charges (note 14.1)	74,153	--
Contract cost accruals	91,975	160,935
Amount to be donated for charitable purposes (note 14.2)	66,756	70,983
Zakat payable (note 26)	30,263	57,291
Amounts due to affiliates (note 15)	2,514	2,828
Unearned interest income - Home Ownership Scheme (note 11)	688	--
	889,962	883,588

14.1 During the year ended December 31, 2015, accrued financial charges relating to long-term loans amounting to SR 66.2 million (2014: SR Nil) have been reclassified from long-term loans to accounts payable and accruals (note 16).

14.2 The Board of Directors decided in 2006 to donate the amount earned on the founding shareholders' share capital contribution (before initial public offering) placed in fixed deposits maintained with a bank before placing funds under an Islamic deposit scheme. Commission earned on this deposit is added to the amount to be donated for charitable purposes.

15. RELATED PARTY TRANSACTIONS AND BALANCES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence on the other party in making financial and operating decisions.

Related parties include the shareholders, directors, associated companies and key management personnel of the Company.

Related party transactions mainly represent services, expenses and other transactions, which are undertaken at mutually agreed terms and approved by the management.

In addition to the disclosures set out in note 10, significant related party transactions for the year ended December 31 are described as under:

		2015		2014	
Related party	Nature of transaction	**Amount of transaction (SR'000)**	**Balance receivable/ (payable) (SR'000)**	Amount of transaction (SR'000)	Balance receivable/ (payable) (SR'000)
Affiliates	Sale of land	**--**	**--**	760,000	--
	Expenses incurred by affiliates on behalf of the Group	**180**	**(35)**	6	(349)
	Expenses incurred by Group on behalf of an affiliate	**--**	**89**	--	89
	Services provided to the Group	**5,088**	**(2,479)**	28,163	(2,479)
	Services provided to the affiliate	**2,321**	**412**	--	--
	Purchase from affiliate	**4,921**	**--**	79,327	--
	Sale of properties	**--**	**--**	133,659	--
Key management personnel	Remuneration	**27,788**	**(18,342)**	22,913	(14,737)
	Sale of properties	**8,464**	**--**	45,843	35
Board of Directors	Meeting fee	**2,290**	**--**	2,525	(2,525)
	Sale of properties	**--**	**--**	24,430	1,634

16. LONG-TERM LOANS

	2015 SR'000	2014 SR'000
Balance at January 1	**6,131,180**	5,274,789
Loans obtained during the year	**1,350,000**	750,000
Commission for the year	**105,721**	106,391
Commission paid during the year	**(420,656)**	--
Commission reclassified to accounts payable and accruals (note 14.1)	**(66,245)**	--
	7,100,000	6,131,180
Current portion of long-term loan	--	(753,365)
Balance at December 31	**7,100,000**	5,377,815

16.1 During 2011, the Company received a loan of SR 5,000 million from the Ministry of Finance (MoF) for the development of KAEC. The loan is secured against pledge of 24.7 million sqm of the Greenfield land (note 8.2) and carries annual commission at commercial rates and was originally repayable, with a three years grace period, in seven annual instalments commencing from June 1, 2015. However, based on the Company's request submitted before the due date, the MoF, during September 2015, has rescheduled the loan by extending the grace period for an additional period of five years. The principal amount is now repayable in seven annual instalments commencing from June 2020 with accrued commission payable on an annual basis. Further, the accrued commission on the loan up to 31 May 2015 has been paid during September 2015.

16.2 During 2014, the Company has signed an Islamic facility agreement with a commercial bank for SR 2,000 million Murabaha liquidity finance facility that carries commission at commercial rates. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from June 30, 2018 to December 31, 2021. The loan is secured against the pledge of shares of the Company in PDC and an order note for SR 2,500 million.

During the year ended December 31, 2015, the Company has signed an Islamic facility agreement with a commercial bank for SR 1,000 million that carries commission at commercial rates. As per the terms of the agreement, the loan is repayable in eight bi-annual instalments from October 20, 2019 to April 20, 2023. The loan is secured against KAEC's Greenfield Land held by the Company and an order note for SR 1,200 million (note 8.2).

16.3 During 2014 and year ended December 31, 2015, the Company has signed two facility agreements with a commercial bank for SR 1,000 million each, carrying commission at prevailing commercial rates. As per the terms of the agreements, the loan terms are door to door 8 years with 3 years grace period starting from respective dates of the agreements. In order to comply with the Sharia principles, an additional facility of SR 250 million has been arranged by the bank linked to each of the facility, to permit the rollover (repayment and drawdown) so that the principal amount is available to the Company for the first 3 years of the loan. Each loan facility is secured against Greenfield Land at KAEC and an order note for SR 1,250 million each (note 8.2).

17. DEFERRED CONTRIBUTION

	2015 SR'000	2014 SR'000
Balance at January 1	**953,882**	532,252
Collections during the year	**598,499**	470,486
Amortisation during the year (note 9.1)	**(55,752)**	(48,856)
Balance at December 31	**1,496,629**	953,882

18. LONG-TERM PROVISION

The Company has contracted with its residential customers to provide property and city maintenance services. The costs of providing these services, over the useful life of the residential units, to its residential customers is expected to be higher than the fee or charges that the Company will be able to charge to its residential customers. Accordingly, a provision has been made for the excess costs. Such provision is reviewed at each balance sheet date and appropriate adjustment is made to account for change in the estimated excess costs, if any.

19. EMPLOYEES' END OF SERVICE BENEFITS

	2015 SR'000	2014 SR'000
Balance at January 1	**16,990**	12,080
Charge for the year	**6,851**	6,648
Payments made during the year	**(724)**	(1,738)
Balance at December 31	**23,117**	16,990

20. SHARE CAPITAL

The authorized, issued and fully paid share capital of the Company is as follow:

	2015		2014	
	Number of shares	**(SR'000)**	Number of shares	(SR'000)
Issued for cash	**680,000,000**	**6,800,000**	680,000,000	6,800,000
Issued for consideration in kind (note 8.2)	**170,000,000**	**1,700,000**	170,000,000	1,700,000
	850,000,000	**8,500,000**	850,000,000	8,500,000

21. STATUTORY RESERVE

In accordance with its By-laws and the Regulations for Companies in Kingdom of Saudi Arabia, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This Statutory Reserve is not available for distribution to the shareholders. During the year, the Company has transferred an amount equal to 10% of its net income for the year, after setting off its accumulated losses.

22. EFFECT OF REDUCING THE OWNERSHIP PERCENTAGE IN A SUBSIDIARY

During 2013, the shareholders of IZDCL resolved to change the effective shareholding interest of the Company in IZDCL to be 98% in line with other group entities. The legal formalities in this respect had been completed during the year ended December 31, 2014. Consequently, the company held 4,950 shares representing 98% (effective) of IZDCL's share capital, compared to its previous shareholding of 100% (effective) of IZDCL's capital, prior to the transaction.

Due to the decrease of the Company's shareholding in IZDCL, the Company's share in the net asset of IZDCL has decreased and amount equivalent to SR 86,379 was recognized as an un-realized loss under equity.

23. REVENUE

	2015 (SR'000)	2014 (SR'000)
Sale of properties	**835,730**	948,474
Others	**187,227**	115,868
	1,022,957	1,064,342

24. SELLING AND MARKETING EXPENSES

	2015 (SR'000)	2014 (SR'000)
Branding and launch expenses	**31,367**	55,166
Employee costs	**25,340**	14,438
Advertising and promotional expenses	**20,119**	15,967
Provision for doubtful debts (note 6.1.1)	**9,915**	327
Sales commission	**2,111**	7,217
Others	**894**	2,310
	89,746	95,425

25. GENERAL AND ADMINISTRATION EXPENSES

	2015 (SR'000)	2014 (SR'000)
Employee costs	**142,267**	115,410
Professional charges	**26,524**	32,855
Rent	**5,127**	5,110
Communication and office expenses	**7,520**	6,005
Facility and city management services	**3,182**	4,057
Repairs and maintenance	**1,721**	2,184
Others	**7,229**	10,867
	193,570	176,488

26. ZAKAT

a) Charge for the year

i) Zakat charge for the year ended December 31 comprises the following:

	2015 (SR'000)	2014 (SR'000)
Current & prior year	**28,584**	26,600

ii) The significant components of Zakat base for the year ended December 31 are as follow:

	2015 (SR'000)	2014 (SR'000)
Equity and provisions	**22,177,703**	20,939,582
Book value of long term assets	**(21,919,309)**	(20,269,831)
	258,394	669,751
Zakatable income for the year	**329,306**	382,936
Zakat base	**587,700**	1,052,687

26. ZAKAT (continued)

b) Accrued Zakat

The movement in accrued zakat during the year ended December 31 is as follows:

	2015 (SR'000)	2014 (SR'000)
Balance at beginning of the year	**57,291**	36,959
Add: Charge for the year	**28,584**	26,600
Less: Payments during the year	**(55,612)**	(6,268)
Balance at end of the year	**30,263**	57,291

c) Status of assessments

EEC filed the Zakat returns up to the year 2014 and obtained restricted Zakat certificates.

The DZIT issued Zakat assessments for the years 2006 to 2008 and claimed additional Zakat and withholding tax differences of SR 90.4 million in addition to delay penalty. The case was transferred to the Higher Appeal Committee (HAC) which issued a decision supporting the DZIT. In compliance of the appeal procedures and without admitting the liability, the Company submitted a bank guarantee and paid under protest the withholding tax differences. The Company appealed against the HAC decisions at the Bureau of Grievance. The Company is of the view that given a fair review of the assessments, their view may prevail. No provision is made for the additional Zakat and withholding tax liability in these consolidated financial statements.

The DZIT issued the Zakat assessment for the years 2009 to 2011 and claimed additional Zakat, withholding tax and delay penalty differences of SR 64.7 million. The Company had filed an objection against this assessment and submitted the documents supporting the objection. The DZIT issued an amended assessment for the years 2009 to 2011, which showed a reduction of Zakat and withholding tax differences by SR 30.2 million. The Company accepted the amended assessment and settled the Zakat, withholding tax and delay penalties differences of SR 34.6 million.

IZDCL finalized its Zakat status up to the year 2011 and filed the Zakat returns up to the year 2014 and obtained the Zakat certificates.

ECIHC finalized its Zakat status up to the year 2011 and filed the Zakat returns up to the year 2014 and obtained the Zakat certificates.

REOM, REM and RED have filed the Zakat returns up to the year 2014 and obtained the Zakat certificates.

27. EARNINGS PER SHARE

Earnings per share on profit from operations are calculated by dividing the profit from operations with the weighted average number of ordinary shares in issue during the year.

Earnings per share on net income are calculated by dividing the net income with the weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings per share is not applicable to the Group.

28. OPERATING LEASES

Operating lease commitments - Group as lessee

The Group has operating leases for office space, residential units and equipment. The leases are renewable at the expiry of lease period. The Group's obligation under the operating lease is as follows:

	2015 (SR'000)	2014 (SR'000)
Within one year	**1,759**	1,404

Operating lease commitments - Group as lessor

The Group has entered into leases on its investment property portfolio. The future minimum rentals receivable under non-cancellable operating leases contracted for as at the reporting date but not recognised as receivables, are as follows:

	2015 (SR'000)	2014 (SR'000)
Within one year	**48,015**	38,492
After one year but not more than five years	**206,862**	140,758
More than five years	**814,788**	554,319
	1,069,665	733,569

29. RISK MANAGEMENT

The Group is exposed to market, credit and liquidity risks.

The Group's management oversees the management of these risks. The Group's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Group policies. The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below:

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial instruments affected by market risk include loan from Ministry of Finance and commercial banks and Murabaha deposits. Market prices comprise of commission rate risk and currency risk as stated below.

29. RISK MANAGEMENT (continued)

Market risk (continued)

Commission rate risk
Commission rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market commission rates. The Group's exposure to the risk of changes in market commission rates relates primarily to the Group's commission bearing bank deposits and loan from MoF and commercial banks. The Group manages its commission rate risk by monitoring changes in commission rates in the currencies in which its commission bearing liabilities and assets are denominated.

Currency risk
Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in foreign exchange rates. The Group did not undertake significant transactions in currencies other than Saudi Riyals and US Dollars, and as US Dollar is pegged to Saudi Riyal, the Group is not exposed to significant currency risk.

Credit risk
Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group seeks to manage its credit risk with respect to customers by monitoring outstanding receivables. The sale agreements with customers provide that the title to the property is transferred to the customers only upon the receipt of complete sale price. The five largest customers account for 24.4% (2014: 27.2%) of outstanding accounts receivable at December 31, 2015. The Group manages its exposure to credit risk with respect to Murabaha deposits with banks by diversification and investing with counterparties with sound credit rating preferably A or higher. At the reporting date, all counter parties to the Murabaha deposits have credit ratings of A or higher. With respect to credit risk arising from the other financial assets of the Group, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial liabilities. Liquidity requirements are monitored on a regular basis and the Group manages its liquidity risk by ensuring that sufficient funds are available to meet any commitments as they arise.

As at December 31, 2015, financial liabilities of SR 125 million (2014: SR 186 million) are payable within 3 months and the remaining financial liabilities are payable within 4 to 12 months, of the year end.

30. FAIR VALUES OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. The Group's financial assets consist of cash and cash equivalents, Murabaha deposits with banks, accounts receivable, commission receivable on Murabaha term deposits, Employees' receivable – Home Ownership Scheme and amount due from an affiliate and its financial liabilities consist of payables and accruals and loans from MoF and commercial banks. The management believes that the fair values of financial instruments are not materially different from their carrying values.

31. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to the disclosures set out in note 26, contingent liabilities and commitments as at December 31 are described as under:

a) The Group has contracted with its industrial customers to provide property management and city maintenance services. The costs of providing these services to industrial customers may be higher than the fee or charges that the Group may be able to charge to its industrial customers. The financial effect, if any, is not currently practicable to estimate.

b) During the year ended December 31, 2015, one of the customers filed a claim against the company relating to the handover of a property and the damages due to alleged delays, against which the customer had failed to pay the due amounts on due dates. Though Appellate Court has issued a ruling against the Company, subsequently the Company filed an appeal with Supreme Justice Council against the ruling. The Company firmly believes that the case will be decided in their favour. Pending appeal decision, the financial effect, if any, cannot be estimated reliably.

c) The Group had commitments as at December 31, 2015 amounting to SR 2,361 million (2014: SR 2,963 million) related to future capital expenditure for the development of KAEC.

d) The Group's bankers have issued letters of credit amounting to SR 25.5 million (2014:SR 109.3 million) on which there is no cash margin (2014: 0.4 million).

32. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised to issue by the Board of Directors on February 20, 2016.